

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Lynn
Contributory Retirement System
For the Three Year Period
January 1, 2001 - December 31, 2003
PERAC 01: 11-050-11**

TABLE OF CONTENTS

Letter From The Executive Director.....	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	5
Statement of Changes in Fund Balances.....	6
Statement of Income.....	7
Statement of Disbursements.....	8
Investment Income.....	9
Statement of Allocation of Investments Owned.....	10
Supplementary Investment Regulations	11
<u>Notes to Financial Statements:</u>	
Note 1 – The System.....	14
Note 2 – Significant Accounting Policies.....	15
Note 3 – Supplementary Membership Regulations.....	17
Note 4 – Administration of the System.....	18
Note 5 – Actuarial Valuation and Assumptions.....	19
Note 6 – Membership Exhibit.....	20

March 4, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Lynn** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2001** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan, James Sweeney, and James Tivnan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Lynn Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

1. Minutes:

The Auditor reviewed Board Meeting Minutes from January 2001 through May 2004. It was observed that every other page in the minutes book was left blank.

Recommendation:

In order to reduce the risk of altering the contents of the minutes, it is a good business practice to either fully eliminate blank pages or mark the pages as “intentionally left blank” and include the Board Secretary’s initials. Furthermore, it is recommended that the Minutes be bound periodically.

Board Response:

The Executive Director has begun printing the minutes with no blank pages and will initial each page. The minutes book will be bound at the end of this year. We will also mark the previously blank pages “intentionally left blank” as was recommended.

2. Investment Gains and Losses

Investment gains and losses are recorded by the Lynn Retirement System at the net gain or loss reported by the custodian. As a result, the Annual Statement supporting schedules gross gains and losses do not agree to the general ledger (GL) gain and loss accounts. Although the result of manually netting supporting schedule gains and losses and comparing them to the GL is zero, the reporting results could be misleading to any reader of the Annual Statement.

Recommendation:

As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement in order to allow readers to make an accurate assessment of the systems financial condition.

The Lynn Retirement System should require the custodial bank to adjust their gain and loss reporting so that gross gains and losses are summarized at the end of each reporting period. Based upon this revised reporting, the System should record gross gains and losses in order to ensure GL accounts and Annual Statement supporting schedules are in agreement.

Board Response:

The Executive Director has requested that the Board’s Custodian – IBT – change their monthly reporting format so that the total gains and losses are listed separately, rather than listed as a net entry.

Lynn Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

3. Annuity Reserve Interest Calculation

The 2002 Annuity Reserve Fund interest calculation was overstated by \$26,658.01. This appears to be an automated system error in calculating the interest as the correct general ledger entries were made throughout the year. The cumulative variance through 12/31/03 is \$30,643.07.

Recommendation:

An adjusting entry is needed to correct the January 1, ARF beginning balance by the amount of excess interest recorded to the Annuity Reserve Fund (debit Annuity Reserve Fund \$30,643.07 and credit Pension Reserve Fund \$30,643.07. Ensure that this corrected ARF balance is used as the beginning balance when calculating the 2004 ARF interest.

Board Response:

An adjusting journal entry has been made to correct the annuity reserve fund balance and this adjusted balance will be used when calculating the 2004 annuity reserve fund interest.

4. Membership

Audit staff sampled members' deduction rates to confirm the correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 hired after January 1, 1979. Our initial sample yielded a 20% error rate primarily in the additional 2% deduction rate not being applied. We extended the sample and determined that the DPW in particular had failed to withhold the extra 2% deduction in 50% (26 exceptions/51 active persons on weekly payroll) of the employees reviewed.

The payroll detail provided by the City to the Retirement Board was insufficient to confirm that retirement contributions were restricted to regular compensation pay codes and not applied to overtime and other wages.

Recommendation:

The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which outlines the additional 2% deductions.

The Board should obtain additional payroll information from the City Treasurer or from each department, which includes the following details:

- Compensation by type: total, regular, over time, longevity, seniority, shift differential, Quinn bill (for Police), etc.
- Compensation by pay code: regular, exempt, other, etc.

Lynn Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Board or Board staff should review this data routinely to ensure that the proper deductions for members' contributions are being withheld. In addition, the Board staff needs to coordinate with the payroll person in each department to better inform them of the requirements for proper classification of employees and payroll withholding rates. At minimum, an annual visit, memo, and/or training session is suggested.

Board Response:

The Lynn Retirement Board held an informational/training session with the various payroll administrators in the System on November 16, 2004. The Board invited PERAC auditors James Tivnan and James Ryan to attend to answer any questions pertaining to the required deduction rates. Board member John Pace and Executive Director Gary Brenner coordinated the session. The payroll administrators received written instruction concerning the deduction rates and the additional 2% deduction. The PERAC auditors were very helpful emphasizing the importance of having the payroll data input properly. The session was well received and procedures concerning new members were implemented. The Retirement Board staff will check each member that is susceptible to the additional 2% deduction by creating a report listing these members and their deductions.

Final Determination:

PERAC auditors will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Lynn Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2003	2002	2001
Cash	\$663,740	\$26,609	\$40,271
Short Term Investments	4,250,709	2,571,402	5,211,445
Fixed Income Securities (at book value)	31,342,606	32,263,150	30,538,050
Equities	46,652,975	35,552,244	43,789,794
Pooled Domestic Equity Funds	25,565,869	19,713,583	27,316,865
Pooled International Equity Funds	13,399,822	9,840,882	8,524,620
Pooled Domestic Fixed Income Funds	24,158,547	23,460,426	21,289,107
Pooled Alternative Investment Funds	1,485,383	1,513,362	1,513,676
Pooled Real Estate Funds	7,366,407	6,964,763	6,916,344
Interest Due and Accrued	349,656	407,692	555,891
Accounts Receivable	7,071,282	8,306,753	6,274,666
Accounts Payable	(13,032)	(104,634)	(164,985)
TOTAL	<u>\$162,293,963</u>	<u>\$140,516,233</u>	<u>\$151,805,744</u>
FUND BALANCES			
Annuity Savings Fund	\$57,448,752	\$57,908,946	\$54,467,550
Annuity Reserve Fund	21,791,653	18,813,743	17,694,249
Pension Fund	7,793,277	11,849,394	12,911,384
Military Service Fund	7,174	7,103	10,221
Expense Fund	0	0	0
Pension Reserve Fund	75,253,107	51,937,047	66,722,340
TOTAL	<u>\$162,293,963</u>	<u>\$140,516,233</u>	<u>\$151,805,744</u>

Lynn Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2001)	\$50,674,008	\$17,432,073	\$15,557,339	\$10,030	\$0	\$76,198,447	\$159,871,896
Receipts	6,328,892	524,521	14,416,626	191	959,237	(9,475,128)	12,754,340
Interfund Transfers	(1,886,806)	1,887,785	0	0	0	(979)	0
Disbursements	(648,544)	(2,150,130)	(17,062,581)	0	(959,237)	0	(20,820,492)
Ending Balance (2001)	54,467,550	17,694,249	12,911,384	10,221	0	66,722,340	151,805,743
Receipts	7,043,260	565,862	16,640,166	128	956,070	(14,780,157)	10,425,329
Interfund Transfers	(2,821,477)	2,839,565	(9,705)	(3,246)	0	(5,136)	0
Disbursements	(780,386)	(2,285,933)	(17,692,452)	0	(956,070)	0	(21,714,840)
Ending Balance (2002)	57,908,946	18,813,743	11,849,393	7,103	0	51,937,047	140,516,232
Receipts	6,369,873	631,536	15,385,383	71	905,362	23,315,472	46,607,698
Interfund Transfers	(4,896,356)	4,895,769	0	0	0	588	0
Disbursements	(1,933,710)	(2,549,395)	(19,441,500)	0	(905,362)	0	(24,829,967)
Ending Balance (2003)	<u>\$57,448,752</u>	<u>\$21,791,653</u>	<u>\$7,793,277</u>	<u>\$7,174</u>	<u>\$0</u>	<u>\$75,253,107</u>	<u>\$162,293,963</u>

Lynn Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Annuity Savings Fund:			
Members Deductions	\$5,325,822	\$5,765,594	\$5,233,294
Transfers from other Systems	198,341	211,914	59,969
Member Make Up Payments and Redeposits	319,955	328,020	99,758
Investment Income Credited to Member Accounts	<u>525,755</u>	<u>737,732</u>	<u>935,871</u>
Sub Total	<u>6,369,873</u>	<u>7,043,260</u>	<u>6,328,892</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>631,536</u>	<u>565,862</u>	<u>524,521</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	88,426	59,097	88,204
Received from Commonwealth for COLA and Survivor Benefits	603,466	2,526,675	930,490
Pension Fund Appropriation	<u>14,693,491</u>	<u>14,054,394</u>	<u>13,397,932</u>
Sub Total	<u>15,385,383</u>	<u>16,640,166</u>	<u>14,416,626</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>71</u>	<u>128</u>	<u>191</u>
Sub Total	<u>71</u>	<u>128</u>	<u>191</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>905,362</u>	<u>956,070</u>	<u>959,237</u>
Sub Total	<u>905,362</u>	<u>956,070</u>	<u>959,237</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	241,617	264,451	210,312
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	7,253	12,070	7,111
Misc. Income	11,264	4,076	0
Excess Investment Income	<u>23,055,338</u>	<u>(15,060,754)</u>	<u>(9,692,551)</u>
Sub Total	<u>23,315,472</u>	<u>(14,780,157)</u>	<u>(9,475,128)</u>
TOTAL RECEIPTS	<u>\$46,607,698</u>	<u>\$10,425,329</u>	<u>\$12,754,340</u>

Lynn Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001
Annuity Savings Fund:			
Refunds to Members	\$1,366,261	\$600,037	\$482,767
Transfers to other Systems	<u>567,449</u>	<u>180,349</u>	<u>165,777</u>
Sub Total	<u>1,933,710</u>	<u>780,386</u>	<u>648,544</u>
Annuity Reserve Fund:			
Annuities Paid	2,499,782	2,158,227	2,060,292
Option B Refunds	<u>49,613</u>	<u>127,706</u>	<u>89,838</u>
Sub Total	<u>2,549,395</u>	<u>2,285,933</u>	<u>2,150,130</u>
Pension Fund:			
Pensions Paid	0	0	0
Regular Pension Payments	12,626,488	10,811,073	10,036,392
Survivorship Payments	1,390,460	1,248,837	1,475,552
Ordinary Disability Payments	308,176	270,161	257,512
Accidental Disability Payments	3,154,844	3,148,980	3,118,492
Accidental Death Payments	1,404,371	1,337,332	1,321,728
Section 101 Benefits	357,721	351,016	328,766
3 (8) (c) Reimbursements to Other Systems	31,946	358,575	357,445
State Reimbursable COLA's Paid	167,494	166,478	166,695
Sub Total	<u>19,441,500</u>	<u>17,692,452</u>	<u>17,062,581</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	18,000	18,000	15,000
Salaries	153,701	141,689	134,584
Legal Expenses	65,505	44,011	21,707
Travel Expenses	4,503	8,010	7,797
Administrative Expenses	40,809	46,497	60,425
Furniture and Equipment	8,205	0	0
Management Fees	524,453	606,301	610,158
Custodial Fees	42,186	43,562	50,066
Consultant Fees	<u>48,000</u>	<u>48,000</u>	<u>59,500</u>
Sub Total	<u>905,362</u>	<u>956,070</u>	<u>959,237</u>
TOTAL DISBURSEMENTS	<u>\$24,829,967</u>	<u>\$21,714,840</u>	<u>\$20,820,492</u>

Lynn Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Investment Income Received From:			
Cash	\$0	\$0	\$0
Short Term Investments	53,034	115,727	180,827
Fixed Income	2,624,994	2,486,671	3,705,397
Equities	719,182	639,359	587,553
Pooled or Mutual Funds	1,498,312	1,630,858	990,453
Commission Recapture	<u>37,605</u>	<u>26,202</u>	<u>16,563</u>
TOTAL INVESTMENT INCOME	<u>4,933,128</u>	<u>4,898,817</u>	<u>5,480,793</u>
Plus:			
Realized Gains	5,874,085	1,787,362	7,108,176
Unrealized Gains	18,350,037	6,087,697	7,461,654
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>349,656</u>	<u>407,692</u>	<u>555,891</u>
Sub Total	<u>24,573,778</u>	<u>8,282,751</u>	<u>15,125,722</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(849,102)	(620,458)	(683,107)
Realized Loss	(1,159,270)	(6,823,722)	(3,697,818)
Unrealized Loss	(1,972,778)	(17,982,459)	(22,759,165)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(407,692)</u>	<u>(555,891)</u>	<u>(811,155)</u>
Sub Total	<u>(4,388,843)</u>	<u>(25,982,530)</u>	<u>(27,951,245)</u>
NET INVESTMENT INCOME	<u>25,118,062</u>	<u>(12,800,962)</u>	<u>(7,344,731)</u>
Income Required:			
Annuity Savings Fund	525,755	737,732	935,871
Annuity Reserve Fund	631,536	565,862	524,521
Military Service Fund	71	128	191
Expense Fund	<u>905,362</u>	<u>956,070</u>	<u>959,237</u>
TOTAL INCOME REQUIRED	<u>2,062,724</u>	<u>2,259,792</u>	<u>2,419,820</u>
Net Investment Income	<u>25,118,062</u>	<u>(12,800,962)</u>	<u>(7,344,731)</u>
Less: Total Income Required	<u>2,062,724</u>	<u>2,259,792</u>	<u>2,419,820</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$23,055,338</u>	<u>(\$15,060,754)</u>	<u>(\$9,764,551)</u>

Lynn Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$663,740	\$663,741	0.43%	100
Short Term	4,250,709	4,250,709	2.74%	100
Fixed Income	31,342,606	31,342,606	20.24%	40 - 80
Equities	46,652,975	46,652,975	30.12%	40
Pooled Domestic Equity Funds	25,565,869	25,565,869	16.51%	
Pooled International Equity Funds	13,399,822	13,399,822	8.65%	
Pooled Domestic Fixed Income Funds	24,158,547	24,158,547	15.60%	
Pooled Alternative Investment Funds	1,485,383	1,485,383	0.96%	
Pooled Real Estate Funds	7,366,407	7,366,407	4.76%	
GRAND TOTALS	<u>\$154,886,057</u>	<u>\$154,886,058</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2003**, the rate of return for the investments of the **Lynn** Retirement System was 19.09%. For the five year period ending December 31, **2003**, the rate of return for the investments of the **Lynn** Retirement System averaged 2.93%. For the eighteen-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Lynn** Retirement System was 9.74%.

Lynn Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The **Lynn** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

August 3, 2004

16.08(2) In accordance with Investment Guideline 99-3, the Lynn Retirement Board is authorized to invest in Ascent Venture Partners IV, L.P. The board has been a satisfied investor in the predecessor fund, Ascent Venture Partners III, and the management team and investment strategy for Fund IV are essentially unchanged.

May 7, 2001

16.08(1) Having been informed by Smith Barney, their international equity manager, that the collective trust in which the Board was invested would be terminated and liquidated on short notice, the Lynn Retirement Board determined that the State Street Global Advisors' international equity index fund is the most cost effective and efficient way to maintain the system's asset allocation on a temporary basis. The Board is authorized to invest in the SSGA Fund for up to four months, ending August 2, 2001, pending the completion of a search process for a permanent replacement manager.

October 31, 1996

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

(a) 1% of the value of the fund for the first \$5 million, and

(b) 0.5% of the value of the fund in excess of \$5 million.

20.03(2) At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including international fixed income investments which shall be limited to 15% of the total portfolio valued at market, [(subject to 20.03(4)] and Yankee Bonds which shall be limited to 5% of the total fixed income portfolio valued at market.

20.06(10) Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be corporate bonds and, as such, governed by guideline constraints pertaining to corporate bonds including those stated in the Statement of Objectives (Form 18-1) and PERA Regulations 840 CMR.

July 19, 1995

20.03(1) Equity investments shall not exceed 65% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

Lynn Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

June 21, 1995

20.07(9) Comminigled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action:

(b) such personnel retain authority in the decision making process, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

June 21, 1995

20.03(1) Equity investments shall not exceed 65% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

October 29, 1991

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

December 19, 1989

20.07(6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve month period.

December 21, 1987

20.04(6) American Depository Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that any such investments not exceed 5% of the total book value of equity investments

May 20, 1987

20.09(3) All venture capital investments shall be made in U.S. based companies.

December 11, 1986

20.04(6) American Depository Receipts listed on a United States stock exchange or traded over the counter in the United States.

Lynn Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

October 27, 1986

20.03(1) Equity investments shall not exceed 65% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

Lynn Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Lynn** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Lynn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Lynn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

Lynn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Lynn** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

August 24, 1994

The Lynn Retirement Board will not accept service credit liability of less than 13 consecutive weeks

(minimum 20 hours per week) for former Lynn governmental employees who were ineligible at the time of their employment in the Lynn Retirement System.

This regulation would not apply to an employee who has established membership in the Lynn Retirement System.

May 24, 1991

“Liability: The Lynn Retirement Board will not accept service credit liability for employees working in another system who had prior service in the Lynn CETA program or as a reserve police officer or call firefighter. The Board will also not accept liability for employees who worked less than 13 consecutive weeks (minimum of 20 hours per week). (The employee may purchase this time if he/she becomes a member of the Lynn Retirement System only.)”

April 26, 1991

“Effective immediately, the Lynn Retirement Board adopts the policy not to accept creditable service for CETA time, unless employee requesting same is coming to work for the City of Lynn.”

June 20, 1990

1. Effective immediately the Lynn Retirement Board will not accept extra retirement deductions on the weekly payroll for the purpose of buying back creditable service. In order to buy back service credit, the employee must make payments either in a lump sum or periodically, directly to the Lynn Retirement Board office.

2. Effective immediately all new employees hired by the City of Lynn, Lynn Housing Authority and Lynn Water and Sewer Commission shall be placed on retirement deductions and become members of the retirement system at the time of hire with no probationary period.

June 30, 1987

“All new employees hired by the City of Lynn shall be placed on retirement deductions (shall become members of the retirement system) at the time of hire with no probationary period.”

Lynn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Comptroller who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: John E. Pace

Appointed Member: Michael J. Marks Term Expires: 01/01/06

Elected Member: Richard P. Biagiotti Term Expires: 06/30/07

Elected Member: Warren A. Briggs Term Expires: 06/30/05

Appointed Member: Joseph P. Driscoll Term Expires: Indefinite

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$1,000,000.00
Elected Member:)	Cray-Dowd (Aetna)
Appointed Member:)	
Staff Employee:)	

Lynn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PERAC** as of **January 1, 2004**.

The actuarial liability for active members was	\$171,334,526
The actuarial liability for vested terminated members was	842,021
The actuarial liability for non-vested terminated members was	872,868
The actuarial liability for retired members was	178,269,811
The total actuarial liability was	351,319,226
System assets as of that date were (actuarial value)	178,523,359
The unfunded actuarial liability was	<u>\$172,795,867</u>
 The ratio of system's assets to total actuarial liability was	 50.8%
As of that date the total covered employee payroll was	\$63,050,947

The normal cost for employees on that date was 7.9 % of payroll

The normal cost for the employer was 6.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
Rate of Salary Increase: Varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$178,523,359	\$351,319,226	\$172,795,867	50.8%	\$63,050,947	274.06%
1/2/2002	\$166,986,318	\$317,252,740	\$150,266,422	52.6%	\$66,007,910	227.65%
1/1/2000	\$168,279,923	\$278,031,058	\$109,751,135	60.5%	\$58,953,757	186.16%
1/1/1997	\$109,785,999	\$200,056,186	\$90,270,187	54.9%	\$47,985,127	188.12%
1/1/1994	\$89,843,693	\$179,701,673	\$89,857,980	50.0%	\$39,862,727	225.42%

Lynn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	20	34	37	30	30	3	26	30	40	90
Ordinary Disability	0	0	2	0	0	0	0	1	1	1
Accidental Disability	4	2	3	1	5	0	6	2	4	4
Total Retirements	24	36	42	31	35	3	32	33	45	95
Total Retirees, Beneficiaries and Survivors	1,233	1,240	1,242	1,234	1,285	1,227	1,236	1,276	1,252	1,307
Total Active Members	1,500	1,578	1,550	1,663	1,658	1,809	1,758	1,851	1,802	1,593
Pension Payments										
Superannuation	\$7,913,902	\$7,641,412	\$7,833,539	\$8,187,565	\$8,664,428	\$8,978,534	\$10,115,367	\$10,036,392	\$10,811,073	\$12,626,488
Survivor/Beneficiary Payments	253,367	617,993	679,999	687,556	767,261	847,588	983,413	1,475,552	1,248,837	1,390,460
Ordinary Disability	273,231	231,944	272,536	251,272	270,212	235,668	277,124	257,512	270,161	308,176
Accidental Disability	2,486,803	2,587,686	2,588,916	2,621,077	2,698,377	2,593,707	3,047,526	3,118,492	3,148,980	3,154,844
Other	<u>3,483,335</u>	<u>3,274,637</u>	<u>3,533,417</u>	<u>3,690,706</u>	<u>3,162,609</u>	<u>3,216,004</u>	<u>2,287,710</u>	<u>2,174,634</u>	<u>2,213,401</u>	<u>1,961,532</u>
Total Payments for Year	<u>\$14,410,638</u>	<u>\$14,353,672</u>	<u>\$14,908,407</u>	<u>\$15,438,176</u>	<u>\$15,562,888</u>	<u>\$15,871,501</u>	<u>\$16,711,140</u>	<u>\$17,062,581</u>	<u>\$17,692,452</u>	<u>\$19,441,500</u>